6-14-2012

State of Maine Management Letter For the Year Ended June 30, 2011

Maine State Auditor's Office

STATE OF MAINE
MANAGEMENT LETTER

For the Year Ended
June 30, 2011

State of Maine Department of Audit
Neria R. Douglass, JD, CIA
State Auditor

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LETTER OF TRANSMITTAL

Honorable Kevin L. Raye
President of the Senate

Honorable Robert W. Nutting
Speaker of the House of Representatives

Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the State of Maine Management Letter for the year ended June 30, 2011. In the course of conducting the Single Audit of the State of Maine we became aware of matters that offer opportunities for our government to improve its operations. Audit findings and recommendations on these matters accompany the Management Letter as Management Letter Comments.

Please feel free to contact me with any questions that you may have. Like you, we are committed to improving our State government for the benefit of our citizens. Healthy discussion of problems found, and solutions considered, is part of a dialogue that aims at improvement. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,

Neria R. Douglass

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June 14, 2012

State of Maine
Management Letter for the Year Ended
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MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2011, we considered the State of Maine's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and federal program compliance, but not for expressing our opinion on the effectiveness of the State of Maine's internal control over financial reporting or compliance.

During our audit we became aware of several matters referred to as "management letter comments" that offer opportunities for strengthening internal control and improving operating procedures of the State. The following pages summarize our comments and suggestions on those matters and are in addition to the more significant issues addressed in the following reports included in Maine's 2011 Single Audit Report.

- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

- Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Included with the management letter comments are the audited agencies' responses. We would be pleased to discuss these management letter comments in further detail at your convenience.

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

June 14, 2012

2011 Management Letter Comments

Department of Administrative and Financial Services

(ML11-0203-02)

Collection of billed receivables needs improvement

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Condition: The Department of Health and Human Services Service Center did not have an adequate process in place for administering billed receivables. Personnel responsible for receivables did not always update the subsidiary ledger when new receivables were created, or when amounts owed were appealed or paid.

Context: As of June 30, 2011, DHHS' billed receivables balance was $2.3 million.

Cause:

- Lack of communication between staff members responsible for various aspects of the billed receivables process
- Insufficient procedures related to the subsidiary ledger

Effect: Funds owed to the State may not be collected; billed receivable balance may be inaccurate

Recommendation: We recommend the Department improve their internal controls so that the billed receivables are regularly monitored to ensure adequate and accurate accounting.

Management's Response/Corrective Action Plan: *The Department of Health and Human Service's Service Center agrees with the finding.*

The Department will implement corrective action within 30 days of this response. The Department's corrective action plan will include: (1) proper administration of the receivable collections on a monthly basis, and (2) the implementation of a reconciliation process between the receivable subsidiary ledger and the State's accounting system.

Contact: *Raymond Girouard, Director, Health and Human Services Service Center, Administrative and Financial Services, 287-8888*

(ML11-0203-03)

Improper recognition of revenue in fiscal year 2011

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Condition: The Health and Human Services Service Center recognized revenue earned in prior years as current year revenue. Approximately $9.7 million in Federal funds were drawn to cover previously approved CHIP health service initiative expenditures. Of this amount, $7.85 million was attributable to expenditures from prior years, yet the entire amount was recognized in fiscal year 2011.

Context: Total Federal revenue was $3 billion in fiscal year 2011.

Cause: Untimely request for reimbursement for prior years' expenditures.

Effect: Federal revenue was overstated and, correspondingly, beginning fund balance was understated for fiscal year 2011.

Recommendation: We recommend that the Health and Human Services Service Center provide information to the State Controller during the financial closing process so that the State's financial statements properly reflect financial condition and activity of the current fiscal year. In addition, we recommend that the service center draw Federal funds when earned or available.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services did not draw earned Federal revenue in a timely manner. To address the underlying cause of this finding, the Department implemented internal controls in State fiscal year 2011 (May 2011) to ensure that draws are processed timely. Additionally, the Department established an Other Special Revenue account in State fiscal year 2012, to isolate and properly account for, this specific earned Federal revenue funding. In conclusion, the Department has implemented effective corrective action to ensure that Federal cash is drawn in a timely manner.*

Contact: *Colin D. Lindley, Director of MaineCare Finance, 287-1855*

(ML11-0204-01)

Controls over the proper valuation of taxes receivables needs improvement

Prior Year Finding: ML10-0204-01

State Bureau: Maine Revenue Services

Condition: The procedure used to calculate the Allowance for Uncollectible Taxes Receivable is not sufficient to ensure the proper valuation of Taxes Receivable. The Department does not base their estimate on a quantitative or historical analysis; standard percentages are utilized instead.

Context: Fiscal year-end taxes receivable has averaged $578 million in the last two fiscal years and the corresponding Allowance for Uncollectible Taxes Receivable averaged $143 million for this same period.

Cause: The percentages used to value the allowance account for each of the major tax types is based on percentages developed for generic statewide use.

Effect: The valuation of Taxes Receivable could be inaccurate in the State's financial statements and related notes.

Recommendation: We recommend that the Department develop a methodology for establishing the allowance account for taxes receivable that is based on quantitative and analytical procedures that considers past, current, and predicted future trends as well as the age of receivables.

Management's Response/Corrective Action Plan: *Maine Revenue Services (MRS) agrees with this finding.*

MRS accounting staff is working with OIT computer analysts to develop computer generated receivables activity reports that will identify actual collections applied to year-end receivables. Collections data will be tracked for each of the last 10 consecutive fiscal year-end receivables balances. A corresponding write-off analysis report will be developed to identify reductions to account balances for each of the same 10 consecutive fiscal year-end receivables balances. The data provided by these reports will be used to analyze collection and write-off activity trends and substantiate the allowance for uncollectible tax receivables. Analytical review of account activity will continue to be provided by Compliance Division personnel and utilized as necessary in developing an appropriate valuation of the bureau's receivables. Although new reports are expected to be in place by June 30, 2012, this will obviously be a work in progress for a few years as we prospectively gather collection data.

Contact: *Christopher P. Batson, PSMI, Maine Revenue Services, 624-9607*

(ML11-0305-01)

Controls over accounts receivable need improvement

Prior Year Finding: 10-0305-01

State Bureau: Division of Financial and Personnel Services (DFPS)

Condition: Lottery Fund accounts receivable balance was not supported by detail records. No subsidiary ledger of accounts receivable was maintained. DFPS did not perform alternative procedures to corroborate the balance.

C**ontext:** At fiscal year end the accounts receivable balance was $18.6 million. Although the auditor could not perform tests of the detail, we were able to determine that the balance appeared reasonable.

Cause: The State's on-line and instant lottery games service provider cannot produce a report providing accounts receivable balances by lottery agent.

Effect:

- A possibility that the State's financial statements are misstated.
- A possibility that the State does not have an accurate account of the actual receivable from the lottery agents.

Recommendation: We recommend that the Department work with the service provider to produce a report which provides accounts receivable balances by lottery agent.

Management's Response/Corrective Action Plan: *DFPS agrees with the management letter even though we have persistently insisted that the service provider supply the State of Maine an accounts receivable report for reconciling and verification of our accounts. The Request for Proposal is in process for a service provider; and, the subsequent agreement will require that an accounts receivable report be available by the provider so that this issue will be addressed.*

Contact: *Deanna Lefebre, General Government Service Center Managing Staff Accountant, 624-7385*

(ML11-0309-01)

Inappropriate reporting of Dirigo Health Fund transfer

Prior Year Finding: No

State Department: Office of the State Controller

Condition: The Department did not properly account for the transfer of funds between Dirigo Health Fund and the Fund for a Healthy Maine. This activity was accounted for as a reduction of expenses (reimbursement) rather than a transfer (non-operating revenue).

Context: An audit adjustment totaling $4.4 million was proposed to ensure the financial statements were reasonably stated. The adjustment, however, was not posted to the financial statements.

Cause: Based on differing professional opinions, a management decision was made to account for the transaction as a reimbursement.

Effect: Understatement by $4.4 million of both non-operating revenues and operating expenses within the Enterprise fund set up to account for the activity of the Dirigo Health Program.

Recommendation: We recommend that the Department ensure that non-routine accounting transactions are properly recorded.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services disagrees that these transactions were incorrectly reported in the State's financial statements. The Office of the State Controller has procedures in place to analyze and review non-recurring, significant and unusual transaction activity for proper presentation in our financial statements. We were aware of these transactions and we believe they were properly reported as a reimbursement within the operating activities of our Proprietary Fund financial statements.*

Contact: *Heidi McDonald, Manager, Financial Reporting and Analysis, 626-8437*

Auditor's Conclusion: According to MRSA Title 24 §6916, "the Dirigo Health Enterprise Fund is created as an enterprise fund for the deposit of…any funds received from any public or private source." The Department of Audit believes that this includes funding provided by the State's Fund for a Healthy Maine, the source of the $4.4 million described in the finding.

Our finding remains as stated.

(ML11-0320-01)

Transportation Facilities Fund capital assets overstated by $7.9 million

Prior Year Finding: No

State Bureau: DOT Service Center

Criteria: GASB 34 "Reporting Capital Assets" §18-22

Condition: Transportation Facilities Fund buildings with a cost basis of $7.9 million were reported twice. Although the Department identified this double counting, the overstatement was not corrected in time to be properly reflected on the State's financial statements.

Context: Transportation Facilities Fund capital assets, net of depreciation, totaled $24 million.

Cause: The service center was unable to correct the double counting within the fixed asset system in time for the change to be reflected on the State's financial statements.

Effect: Transportation Facilities fund capital assets were overstated on the State's financials and related notes.

Recommendation: We recommend that the service center inform the State Controller's office of any adjustments necessary to ensure accurate financial reporting.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services (DAFS) agrees that buildings valued at $7.9 million were reported twice in the Transportation Facilities Fund.*

A reconciliation of the Fund was prepared as part of the Department's control process and through the completion of this control step, the Department identified the duplicate entry; however, the Department was unable to correct the issue in a timely manner. In the future, the Department will inform the State Controller's office of any adjustments necessary to ensure accurate financial reporting.

Contact: *Dennis Corliss, Transportation Service Center Director, 623-6701*

(ML11-0320-02)

Information Services Fund capital assets overstated by $5.3 million

Prior Year Finding: No

State Bureau: General Government Service Center

Criteria: GASB 34 "Reporting Capital Assets" §18-22

Condition: Information Services Fund capital assets included equipment valued at $5.3 million that was not in service. According to agency personnel responsible for Information Services Fund fixed assets, this amount should be removed for financial statement reporting purposes. This amount is associated with the Bull system, valued at $3.8 million, which was retired on June 30, 2011. The remaining $1.5 million relates to assets accounted for in a unit which is utilized for assets which were purchased for resale to another agency and are not capital assets of the Information Services Fund.

Context: Information Services Fund capital assets, net of depreciation, totaled $24.9 as of June 30, 2011.

Cause: The fixed asset system was not updated to reflect these retirements in time for the change to be incorporated into the State's financial statement.

Effect: Information Services Fund capital assets were overstated on the State's financial statements.

Recommendation: We recommend that personnel responsible for fixed assets accounting for the Information Services fund inform the State Controller's office of any adjustments necessary to ensure accurate financial reporting.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services (DAFS) agrees that since physical inventories of the Information Services Fund were not performed in recent years, the Department could not readily determine if the $1.5 million in assets mentioned above were no longer in service.*

These assets were thought to be no longer in service based solely on their age. DAFS is currently working with the agency to reconcile all inventories and make adjustments to the assets as needed. Additionally, while a certification was signed on June 30, 2011 signifying that the

$3.8 million Bull System was no longer being used by the agency, the standard process necessary to remove this asset from the State's fixed asset system takes time, and therefore was not complete as of that date, causing the asset to remain on the State's financial statements as of June 30, 2011.

Contact: *Billy Joe Ladd, Managing Staff Accountant, 624-7383*

Auditor's Conclusion: The respondent indicated that because the $3.8 million Bull System was disposed of at year end, the process did not allow time for the asset to be removed from the accounting records. Because the accounting records did not reflect this disposition, the information should have been provided to the State Controller's office so that the accounting information could be adjusted for financial reporting purposes.

Our finding remains as stated.

(ML11-0320-03)

Accounting for capital assets attributable to the State Radio & Network Services Fund is not complete

Prior Year Finding: No

State Bureau: General Government Service Center

Criteria: GASB 34 "Reporting Capital Assets" §18-22

Condition: A record of assets attributable to the State Radio & Network Services Fund is not complete. Certain new assets that have been placed into service are not reported as depreciable assets. Some assets transferred from other agencies are not reported at all. Additionally, the amount reported in construction in progress does not represent the value of projects that are currently under construction.

Context: State Radio & Network System Fund capital assets reported on the State's financial statements consist solely of $13.6 million reported in the non-depreciable construction in progress category.

Cause: General Government Service Center personnel responsible for the Statewide Radio & Network Fund capital asset accounting are working with the State Controller's office to properly report capital assets. However, because of the complexity involved not all decisions necessary for proper reporting have been made.

Effect: State Radio & Network Services Fund capital assets are understated and not properly categorized on the State's financial statements.

Recommendation: We recommend that the General Government Service Center continue to work with the State Controller's office so that the proper reporting of these assets can be

accomplished as soon as possible. In addition, we recommend that all assets of the fund be added to the fixed asset system so that they are included in future financial statements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services (DAFS) disagrees that a record of assets attributable to the State Radio & Network Services Fund is incomplete and further disagrees that certain new assets placed in service need to be reported as depreciable assets. However, we agree that at the time of the audit the analysis and transfer of assets from other agencies was incomplete and that the construction in progress account contained certain expenditures that will not ultimately be capitalized.*

DAFS is developing and commissioning a statewide land mobile radio network. This complex project requires: the consolidation of current operations, upgrades to existing property, the development of new construction, and the purchase of new equipment. This project is on-going and the Department continues to review and coordinate with the Office of the State Controller to ensure that costs are accurately and appropriately capitalized as the project progresses. The issues identified in this finding were not the result of oversight, but instead, timing of the audit as well as allowable and appropriate management decisions.

- *Only a small portion of new construction has been placed into service but those sites are still not 100% complete therefore the department has not moved any of those assets out of construction in progress to be reported as depreciable assets.*
- *Certain assets needed to be transferred between agencies in the State's subsidiary fixed asset system. The assets that needed to be transferred were fully depreciated and many did not meet the State's capitalization threshold. As a result, the Department decided to transfer only those assets that would be retained with the new communication network. This analysis was still in progress at the time of the audit.*
- *At the time of the audit, the Department was (and still is) in the process of analyzing all expenditures related to this project to ensure that amounts reported in construction in progress are capital costs.*

Contact: *Billy Joe Ladd, Managing Staff Accountant, 624-7383*

Auditor's Conclusion: Although the respondent disagrees with the finding in the opening paragraph, the respondent admits to many of the conditions that were the basis of the finding in subsequent paragraphs. Assets are being constructed and placed into service to support the existing radio networks but they are not being depreciated even though their useful lives are being depleted. Additionally, the requirements for tracking and reporting these fixed assets have been in place for years as have many of the assets in question.

Our finding remains as stated.

(ML11-0600-01)

Title: Buildings that had been placed into service were incorrectly categorized as construction in progress

Prior Year Finding: No

State Bureau: Office of the State Controller

Criteria: GASB 34 paragraphs 20, 21 & 22, *Reporting Capital Assets*; State Administrative and Accounting Manual, Chapter 30.20.20, *When to Capitalize Assets*

Condition: The State Controller's office did not properly categorize all capital assets. Construction in progress, related to the governmental funds, included buildings totaling $41.3 million that had been completed and placed into service before the end of the fiscal year. These buildings should have been transferred to a depreciable asset category.

Context: Governmental activities construction in progress reported on the State's financial statements totaled $119.4 million, of which $86.9 was related to the governmental funds.

Cause: Because of the complexities inherent in the spreadsheet utilized for financial statement reporting purposes, the State Controller's office did not complete the analysis of the construction in progress account before completion of the financial statements.

Effect: Construction in progress was overstated and depreciable assets were understated in the State's financial statements.

Recommendation: We recommend that the State Controller's office continue with their efforts to properly classify all capital assets on the financial statements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees that certain buildings reported as non-depreciable assets in the State's financial statements for fiscal year 2011 had been placed in service. However, a decision was made to continue reporting these assets as construction in progress by weighing the circumstances that existed at year end and the nominal impact that decision would have on the State's financial statements. The entire $41.3 million was reported as an asset in the State's Statement of Net Assets. Furthermore, we passed on the proposed audit adjustment since the circumstances and resulting impact on which we based our initial decision was unchanged.*

Contact: *Heidi McDonald, Manager, Financial Reporting and Analysis, 626-8437*

Auditor's Conclusion: The respondent indicates that a decision was made not to categorize completed buildings totaling $41.3 million as depreciable capital assets, resulting in a misclassification on the State's financial statements. In addition, depreciation was not being recognized even though the useful life was being depleted. Depreciation of assets should commence when the asset has been placed into service. Several of these buildings have been in use for a year or more.

Our finding remains as stated.

(ML11-0600-02)

The new Medicaid management information system was incorrectly categorized as construction in progress

Prior Year Finding: No

State Bureau: Office of the State Controller

Criteria: GASB 34 paragraphs 20, 21 & 22, *Reporting Capital Assets*; State Administrative and Accounting Manual, Chapter 30.20.20, *When to capitalize assets;* GASB 51.

Condition: The State Controller's office did not properly categorize all capital assets. Construction in progress, related to the governmental funds, included the new Medicaid management information system, valued at $27.6 million, even though claims processing began in October 2010. The system should have been transferred to a depreciable asset category.

Context: Governmental activities construction in progress reported on the State's financial statements totaled $119.4 million of which $86.9 was related to the governmental funds.

Cause: Because elements of the system were not completed, the State Controller's office did not believe that the system should be move to a depreciable asset category.

Effect: Construction in progress was overstated and depreciable assets were understated in the State's financial statements.

Recommendation: We recommend that the State Controller's office continue with their efforts to properly classify all capital assets on the financial statements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services does not agree with this finding. The State's new Medicaid Claims Processing System was still in active construction during fiscal year 2011 and was not federally certified until fiscal year 2012; therefore we disagree that the asset should be considered fully constructed and complete. The entire $27.6 million was properly reported as an asset in the State's Statement of Net Assets.*

Contact: *Heidi McDonald, Manager, Financial Reporting and Analysis, 626-8437*

Auditor's Conclusion: All Medicaid claims were being processed by the new system by March 31, 2011. By the end of the fiscal year, $1.8 billion in claims had been processed by this system. Because the system had been placed into service, it should have been transferred from a non-depreciable to a depreciable asset category by the end of the fiscal year. Additional modifications that result in increased functionality of the system should be capitalized as incurred.

Our finding remains as stated.

(ML11-0903-02)

Information technology procedures need to be improved

State Bureau: Office of Information Technology

Condition: During an audit of general and application controls over information technology, we noted weaknesses related to security and disaster recovery. In addition, we identified control weaknesses specific to certain information technology systems. We are not disclosing details of the issues in this report to avoid the possibility of compromising the State's data and information technology resources. However, we have discussed the issues in detail with agency personnel.

Context: We reviewed information systems general controls related to the State of Maine's information technology infrastructure and application controls related specifically to the DATHUB, MACWIS, and ACES systems.

Causes:
- Lack of resources
- Inadequate consideration of IT security principles and OIT's IT Security Policy.

Effects:
- Possible inappropriate access, modification and/or disclosure of confidential or sensitive information
- Risk of disruption of government services

Recommendations: We recommend that the Office of Information Technology and other State agencies implement effective IT controls that will ensure compliance with OIT's Information Technology policies and standards.

Management's Response/Corrective Action Plan: *OIT agrees with the audit findings related to this management letter, and commits to working with all concerned parties to improve controls and safeguards within calendar year 2012.*

Contact: *Greg McNeal, Chief Technology Officer, 624-7568*

(ML11-1103-02)

Procedures related to cost allocation plans need to be improved

Prior Year Finding: 10-1103-02

State Bureau: Health and Human Services Service Center

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The Department did not allocate all costs in accordance with the Department of Health and Human Services' and Office of Child and Family Services' (OCFS) revised Cost Allocation Plans. We tested the costs allocated for one quarter of the fiscal year and found that certain allocation statistics were based on erroneous data. This resulted in various programs being overcharged amounts ranging from $13 to $8,242 and various programs being undercharged amounts ranging from $2 to $13,810. In addition, we noted that three programs were not reconciling their respective final receiver reports to the State's accounting records.

Context: The DHHS Cost Allocation Plan (DCAP) and the OCFS Cost Allocation Plan allocated $96.6 million to various DHHS programs using approximately 42 different allocation methods.

Cause:

- Human error
- Lack of communication and training
- Insufficient data for cost allocation

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Cash shortages or overages
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that the Department continue in its efforts to allocate costs utilizing proper statistical data. We further recommend that final receiver reports are reconciled to accounting records on a quarterly basis for all programs.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

In July 2011, several changes were made to reduce the potential for errors. Queries were mostly redesigned to remedy a problem discovered in the Data Warehouse. A database is being developed to help with the calculation of Walk-In Counts and the Receptionist have been provided with more training on what type of individuals should be included in the walk-in count information. In addition, procedures were changed to ensure that all formulas are double-checked for accuracy before being entered into the cost allocation model. In December 2011 and February 2012 training was established for the Senior Accountants on the Cost Allocation to be more informed of how the process works and the expectations.

Contact: *Douglas Averill, Deputy Director, 557-3082*

(ML11-1103-03)

Division of Licensing and Regulatory Services (DLRS) costs not allocated correctly

Prior Year Finding: 10-1103-02

State Bureau: Health and Human Services Service Center

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The Department did not allocate DLRS costs using the correct data. DLRS costs are allocated based on employee time performing tasks associated the various DHHS programs. We noted instances where employee hours were not included and other instances where employee hours were duplicated. The use of incorrect data resulted in the following:

- The Medicaid program was over allocated approximately $12 thousand of which $6 thousand was reimbursed with Federal funds
- The Foster Care program was under allocated $17,185.
- The Child Care and Development Fund (CCDF) was under allocated $95,012.

Context: DLRS costs of $7.7 million are allocated through the DHHS Cost Allocation Plan and the OCFS Cost Allocation Plan to various DHHS programs using the services of the Division.

Cause: Data queries were inaccurate

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that a review be completed of the queries performed to compile DLRS employee time data to ensure that costs are accurately allocated.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The queries for DLRS have been redesigned in October 2011 to alleviate the issues that were discovered in the Data Warehouse. In July 2012, an upgraded model is being implemented, which will allow for the data to be pulled automatically helping to reduce the possibilities of human error in the cost allocation model. An additional step was also added in October 2011, where a double check is done of every individual's hours per pay period to ensure the hours are reasonable. If the information varies from what appears reasonable then the issue is researched and adjustments made to the queries to eliminate the issue before the information is entered in the model.

Contact: *Douglas Averill, Deputy Director, 557-3082*

(ML11-1106-18)

Procedures to ensure accurate financial reporting need improvement

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Condition: The State's Medicaid and Medicaid Expansion programs are reported on the CMS-64 report and the Cubcare program is reported on the CMS-21 report. A review of each program's respective reports noted the following errors:

- During the implementation of the new claims processing system the State paid "bridge" payments to providers and recorded claims in a miscellaneous object code. Subsequent claim submissions related to the bridge payments did not always result in the claim being appropriately debited to the correct object code ("zero-pay" claims). This resulted in incorrect detail being reported on the CMS-64 report.

- The third quarter ending September 30, 2010 CMS-64 report understated expenditures by approximately $1 million.

- Mental Health Facility expenditures were not correctly reported for the Medicaid Expansion program on the CMS-64 report, or the Cubcare program on the CMS-21 report, for quarters ending September 30, 2010 and June 30, 2011.

Context: Medicaid and CHIP are Federal/State-funded programs totaling $2.5 billion in fiscal year 2011.

Cause:
- Personnel were not aware of the impact on reporting
- Isolated reporting errors

Effect: Programmatic decisions could be based on inaccurate data.

Recommendation: We recommend that the Department:
- Develop procedures to ensure accurate financial reporting related to the bridge payment process
- Correct identified errors and resubmit required reports

Management's Response/Corrective Action Plan: *The Department agrees with this finding.*

- Bridge payments: *We are aware of the issue and are working with Molina to free up the zero pay documents from Flexi.*
- Correct identified errors and resubmit required reports: *The error for quarter ending 9/30/2010 has been identified and will be corrected as a prior quarter adjustment on the CMS-64 submitted for quarter ending 3/31/2012. After being notified of the error in the*

reporting of the mental health PIP allocation to CHIP inpatient and outpatient we corrected the issue starting with quarter ending 9/30/2011.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(ML11-1108-01)

Inaccurate financial reporting

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Compliance Area: Reporting

Criteria: Funding (7 CFR 277.4(d))

Condition: During fiscal year 2011, the Department submitted a revised Financial Status Report. Included in this report were $447 thousand of excess in kind contributions for nutrition education reported as Federal expenditures. Federal regulations allow in-kind contributions only as part of the State agency share of program costs.

Context: The Department reported nutrition education expenditures of approximately $4.3 million.

Cause: Use of incorrect methodology in calculating Federal share of nutrition education expenditures

Effect: Inaccurate financial information reported

Recommendation: We recommend that the Department revise the SF 269 Financial Status report to accurately reflect Federal funds expended.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Effective March 2012, the SF269 for Federal fiscal years 2009 and 2010 will be revised to accurately reflect the Federal funds expended and the associated match. Starting Federal fiscal year 2011, the match requirement for nutrition education was eliminated from the grant; therefore in-kind contributions are not claimed.

Contact: *Veronica Robichaud, Managing Staff Accountant, 287-4835*

(ML11-1114-02)

Noncompliance with subrecipient cash management requirements

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Compliance Area: Cash management

Criteria: Uniform administrative requirements for grants and cooperative agreements to State and Local Governments (45 CFR §92.37 & 92.20)

Condition: The Department did not have adequate procedures in place to monitor cash balances of subrecipients receiving funds in advance to ensure that they minimize the time between receipt and disbursement of funds. Of the six subrecipients selected, all six reported cash balances in excess of amounts considered reasonable for immediate cash needs.

Context: During fiscal year 2011, $10.5 million was passed through to 63 subrecipients.

Cause: Ineffective design of procedures to monitor subrecipients' compliance with cash management requirements

Effect: The Federal government could impose more stringent cash management requirements on programs that do not comply with applicable regulations.

Recommendation: No recommendation is necessary because CCDF funds are no longer being disbursed in advance; instead providers are paid on a reimbursement basis only.

Management's Response/Corrective Action Plan: *The issue has been noted. No action is necessary as noted in the recommendation above.*

Contact: *Stephen Turner, Director, Division of Purchased Services, 287-3774*

Department of Administrative and Financial Services and Department of Education

(ML11-1200-02)

Management decisions on subrecipient audit findings need to be more timely

Prior Year Finding: 10-1200-02

State Bureau: Support Systems Team—Education Finance

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d),§ __.405

Condition: The Department did not issue management decision letters to subrecipients in a timely manner. In a sample of ten subrecipients, two management decision letters were not issued within six months of receiving the subrecipients audit report as required by Federal regulations.

Context: Forty-two subrecipients had audit findings disclosed in their reports.

Cause: Staff turnover

Effect: Subrecipients may not be able to take corrective action on a timely basis.

Recommendation: We recommend that the Department continue to utilize the newly developed procedures for identifying and tracking the due dates for management decision letters. In the latter part of fiscal year 2011 the department had implemented new procedures that address timely management decisions.

Management's Response/Corrective Action Plan: *The Department agrees with this finding.*

The Department has implemented a new tracking system in an Access database in which we track the audit review process including the issuance of management decision letters. We are now able to run queries to determine if there are any SAUs missing a management decision letter and we are able to address the issue in a timely fashion to meet all Federal requirements. The new Access Database was implemented November 2011 and has helped eliminate untimely responses.

Contact: *Heather Neal, Supervisor of Audit, Department of Education, 624-6863*

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Department of Administrative and Financial Services and Department of Health and Human Services

(ML11-1106-09)

Automated Data Processing (ADP) risk analysis and system security reviews performed by personnel not organizationally independent

Prior Year Finding: No

State Bureau: Health and Human Services Service Center
Office of Information Technology
Office of MaineCare Services

Criteria: Title 45 CFR §95.621, Internal Audit Policy, A-133 Compliance Supplement

Condition: The IT auditor conducting the ADP risk analysis and system security reviews is not organizationally independent from the ADP systems being reviewed.

Context: The IT auditor reports to the Chief Information Officer, who is also responsible for the State's ADP systems.

Cause: Oversight of the IT auditor is no longer provided by the Office of State Controller

Effect: The Department is placing reliance on risk assessment and system security reviews that do not satisfy the Federal regulation requiring organizational independence.

Recommendation: We recommend that ADP risk analysis and system security reviews by performed by personnel who are organizationally independent, in accordance with Federal regulations.

Management's Response/Corrective Action Plan: *OIT disagrees with this finding.*

The OIT Internal Auditor is never the final word in any security audit. In fact, OIT (and by extension, OIT-DHHS) routinely undergoes several Federal and State audits every year. The OIT Internal Auditor helps OIT track and mitigate the findings of the Federal and State audits. The organizational independence of the OIT Internal Auditor is moot because OIT does not rely on its Internal Auditor for the actual audit findings.

Contact: *Greg McNeal, Chief Technology Officer, 624-7568*

Auditor's Conclusion: According to OMB circular A-133, consideration of the appropriateness and extent of reliance on ADP risk analysis and system security reviews is based on qualifications of the personnel performing the reviews and their organizational independence from the ADP systems. In addition, Government Auditing Standards Chapter 3.31 C states that internal auditors are considered independent if the auditor is located organizationally outside the

staff or line-management function of the unit under audit. The IT internal auditor reports to the Chief Information Officer who oversees the IT function under review.

Our finding remains as stated.

Department of Administrative and Financial Services and Department of Labor

(ML11-1302-01)

Disaster recovery and business continuity plan related to Unemployment Insurance (UI) program needs to be developed

Prior Year Finding: No

State Bureau: Unemployment Compensation
Office of Information Technology

Criteria: 5 MRSA, chapter 163 § 1971-2011 State Information Technology (IT) Security policies, procedures and guidelines, section 11 Disaster Recovery and Business Continuity; National Institute of Standards and Technology (NIST) Special Publication (SP) 800-34, Contingency Planning for IT Systems; UI Program Letter (UIPL) Number 24-04

Condition: Plans to ensure the continued operation of UI claims system in the event of a disaster or system interruption need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the Department's data and IT resources. However, we have notified appropriate Department management of the specific issues.

Context: The State provided $395 million in UI benefits to approximately 70 thousand claimants. The State UI program contributed approximately half of these benefits, with the remainder being funded by temporary Federal UI programs.

Cause: Lack of procedures and funding.

Effect: In the event of a system failure the Bureau may not be able to provide timely unemployment compensation payments to individuals who are unemployed.

Recommendation: We recommend the Department continue to implement a UI System IT Contingency Plan which, at a minimum, incorporates line of succession, detailed recovery procedures, reconstitution phase procedures and the contact information of contingency planning teams.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

The Bureau of Unemployment Compensation and the Office of Information Technology began developing a Business Continuity and Disaster Recovery plan during the audit period. Since then, the Disaster Recovery plans have been tested twice and the Business Continuity Plan will be completed in 2012.

***Contact:** Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(ML11-1302-03)

Procedures related to data exchanges to and from unemployment insurance tax and benefits systems need to be implemented

Prior Year Finding: No

State Bureau: Unemployment Compensation (BUC)
Office of Information Technology (OIT)

Criteria: ETA Handbook no. 336, 18th edition, the UI State Quality Service Plan (SQSP) Planning and Reporting Guidelines, chapter 1, section VI, C, Supplemental Budget Requests (SBRs) and Chapter 1. Section VII, J, Assurance of automated Information system Security; UI Program Letter (UIPL) no. 24-04, Changes 1 to 5; FIPS Publication 200; NIST SP 800-53 and NIST SP 800-53A; Social Security Act (SSA) of 1935, §453; Federal Information Security Management Act (FISMA) of 2002 (Homeland Security Act of 2002), Title X (P.L. 107-347); Common Rule, §20 Standards for Financial Management Systems; State Information Technology (IT) Security policies, procedures and guidelines; Maine Revised Statute Annotated (MRSA) Title 5, Chapter 163 §1971-2011

Condition: Procedures related to data exchanges to and from UI tax and benefits systems are not appropriate. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the Department's data and IT resources. However we have notified appropriate Department management of the specific issues.

Context: Tax and benefit systems processed tax receipts of $178.7 million and claims of $395 million during fiscal year 2011.

Cause: Lack of procedures and resources

Effect: Risk of inappropriate activity

Recommendation: We recommend that the Department be provided with sufficient resources and additional permanent staff to allow for successful implementation of corrective action. In addition, we recommend that the Department implement a process to assess the risks related to claimant and employer information exchanges and discontinue those found to be inappropriate.

Management's Response/Corrective Action Plan: *The Department agrees that processes could be improved.*

The sharing of data between agencies provides important information that supports eligibility decisions and helps ensure that program requirements are met and laws are followed. As part of its business continuity planning, the Bureau of Unemployment Compensation has been updating existing agreements and procedures with its partner agencies. This will be completed in 2012. Electronic data sharing is becoming more prevalent, and process and security will be reviewed with each new agreement.

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(ML11-1302-04)

Procedures related to Federal financial reporting need improvement

Prior Year Finding: No

State Bureau: Unemployment Compensation (BUC)
Security and Employment Service Center (SESC)

Criteria: Federal (OMB Circular A-133, part IV)

Condition: Procedures related to Federal financial reporting are not adequate. Three reports (ETA 191, ETA 581, and ETA 227) are not subject to supervisory review to ensure the accuracy of information prior to transmission to the US DOL-ETA. In addition, the ETA 2112, ETA 581, and ETA 227 reports were prepared and submitted by the same individual.

Context: The Department is required to submit several reports to the Federal government. Some reports are required to be submitted monthly, one is required quarterly, and others are required to be submitted annually.

Cause: High rate of employee turnover within the Department of Labor and the Employment and Security Service Center.

Effect: Inaccurate information may be reported to the U.S. Department of Labor.

Recommendation: We recommend that the Department segregate reporting responsibilities and institute supervisory reviews to better ensure that accurate reports are submitted to the Federal government.

Management's Response/Corrective Action Plan: *While no errors were found in submitted reports, the Department agrees that the reports should be reviewed prior to submission. Going forward, the Department intends that all reports will have received appropriate supervisory review prior to submission.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(ML11-1302-05)

Inadequate controls over Unemployment Insurance system access

Prior Year Finding: ML10-1302-04

State Bureau: Unemployment Compensation (BUC);
Office of Information Technology (OIT)

Criteria: State Information Technology (IT) Security policies, procedures and guidelines, section 9.2.1 Access Authorization; Maine Revised Statute Annotated (MRSA) Title 5, Chapter 163 § 1971-2011; NIST SP 800-53 pertaining to Separation of Duties (AC-5)

Condition: Access to the Unemployment Insurance benefit system was allowed for individuals not requiring access. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the Department's data and IT resources. However we have notified appropriate Department management of the specific issues.

Context: The State provided $395 million in UI benefits to approximately 70 thousand claimants. The State UI program contributed approximately half of these benefits, with the remainder being funded by temporary Federal UI programs.

Cause: Lack of procedures and resources

Effect: Inappropriate access to information and risk of inappropriate activity

Recommendation: We recommend that the Department and OIT continue with their current strategic plan to remediate these issues relating to non-compliance with NIST Standards and the State IT Security policies, procedures, and guidelines related to providing system access.

Management's Response/Corrective Action Plan: *While compensating controls are in place, the Department agrees that further action would improve security over data access. Changes will be completed in 2012.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

Department of Defense, Veterans and Emergency Management

(ML11-1500-01)

Procedures related to drawing administrative awards need improvement

Prior Year Finding: 10-1500-01

State Bureau: Maine Emergency Management Agency (MEMA)

Criteria: Cost Principles for State, Local and Indian Tribal Governments (2 CFR §225 – A-87); Rules and Procedures for Efficient Federal-State Funds Transfers (31 CFR §205)

Condition: The Maine Emergency Management Agency had $896 thousand of unspent Federal cash on hand relating to prior year grant awards. The entire administrative component of previous awards was drawn down even though actual administrative costs were less than the administrative award.

Context: This balance appears to have built up over a period of time.

Cause: MEMA erroneously drew entire administrative awards rather than only amount necessary to cover actual costs incurred.

Effect: $896 thousand had to be returned to the Federal government

Recommendation: The Department has already taken corrective action and returned the funds to the Federal Emergency Management Agency in August 2011. However, we recommend that the Department establish procedures to prevent drawing down funds in excess of actual costs.

Management's Response/Corrective Action Plan: *The Agency agrees with this finding.*

Since at least January 2006, the Agency has operated in strict accordance with Federal Regulations with regard to the drawdown of funds. On February 16, 2012 the Agency, modified our Administrative Plan to include some additional clarification resulting in the following procedures:

F. Management Costs and Direct Administrative Costs

The State of Maine submits that management costs will not be requested in excess of 3.34 percent of the Federal share of projected eligible costs. Direct Administrative Costs will be submitted in accordance with applicable policies and procedures for reimbursement. No funds will be drawn down for purposes of Management Costs and Direct Administrative Costs unless reimbursing admin costs paid in advance by the State of Maine. The State of Maine will not pass through any management cost or direct administrative costs to subgrantee's. Upon receipt of the Initial Lock-in notice, MEMA will request 25% funding of management costs identified in that notice. Administrative Costs will remain in Smartlink until funds are requested to cover expenditures paid in advance or until Management Costs are reconciled when the applicable disaster is closed. Any unused Management Costs will be de-obligated and returned to FEMA's

Disaster Relief Fund. When the Final Lock-In amount is established, MEMA will request 100% of Management Costs available if needed.

Contact: *Robert P. McAleer, Director of MEMA, 624-4401*

Department of Health and Human Services

(ML11-0906-01)

Inadequate backup of Maine Integrated Health Management Solution (MIHMS) system documentation

Prior Year Finding: No

State Bureau: Office of MaineCare Services

Criteria: State of Maine, Office of Information Technology, Software Development Lifecycle Policy and Procedure, MaineCare internal control procedures

Condition: The Department did not obtain and did not follow-up when quarterly backup of system related documentation was not received from the fiscal agent for quarters ending March 31 and June 30, 2011.

Context: The MIHMS system processes Medicaid claims totaling approximately $2.4 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software.

Cause: Competing priorities associated with the Federal certification process

Effect: The lack of system documentation at DHHS could have a negative effect on the life expectancy of the system, vendor monitoring, training, and business continuity.

Recommendation: We recommend that the Department work with the fiscal agent to ensure that appropriate up-to-date documentation is readily accessible to DHHS and other personnel.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Department has corrected the problem and changed the process to prevent a recurrence. DHHS and OIT now both have copies of the backups for these quarters. Those were the only two quarters where this problem occurred.

We believe that this oversight occurred when both the State and Molina had turnover in their project manager roles. As soon as this issue was brought to the State contract administrator's attention, she obtained the back-up for both quarters from Molina. She reviewed them to confirm that they were readable and complete, then stored one in the OIT legal library and provided the other to DHHS. She is now the designated receiver of this quarterly file, and follows this process each quarter of ensuring readability and completeness. We do not anticipate a recurrence of this situation.

Contact: *Stephanie Nadeau, Director, MaineCare Services, 287-2093*

(ML11-0906-02)

Access controls over Maine Integrated Health Management Solution (MIHMS) should be improved

Prior Year Finding: No

State Bureau: Office of MaineCare Services

Criteria: HIPAA, 45 CFR Part 164, Subpart C, Paragraph 308
State of Maine Information Technology Security Policy Section 9

Condition: Access controls over MIHMS should be improved. We are not disclosing specific issues in this report to avoid the possibility of compromising the Department's data and information technology resources. We have notified appropriate Department management regarding the specific issues.

Context: The MIHMS system processes Medicaid claims totaling approximately $2.4 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software.

Cause: Rapid change in the MaineCare business environment due to the failure of MECMS, and high turnover of MaineCare personnel

Effect: Lack of proper control could potentially lead to fraud, abuse, disclosure of personal health insurance, or other unintentional errors.

Recommendation: We recommend that MaineCare personnel work with the fiscal agent to improve access controls within the MIHMS system.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

System access is based on a "role matrix" which was developed by the State and Molina with input and approval from State operations managers. The matrix was developed with broad access built into most roles. The Department has begun reviewing the matrix to revise areas where it is agreed that access can be streamlined without affecting the user's ability to perform his/her job appropriately. The estimated corrective action completion date is November 2012.

Both the Department and Molina also strive to prevent disclosure of Protected Health Information (PHI) through training and signed confidentiality agreements.

Contact: *Stephanie Nadeau, Director, MaineCare Services, 287-2093*

(ML11-0906-04)

Assertions should be tested by the fiscal agent's service auditor

Prior Year Finding: No

State Bureau: Office of MaineCare Services

Criteria: Maine Integrated Health Management Solution (MIHMS) Project, Security Specification Document Version 1.0, page 6 of 79

Condition: The fiscal agent's assertions subjected to annual testing by the service auditor did not include the following critical areas explicitly required by the Security Specification Document:

- security of electronic information in transit
- Adherence with the State of Maine Policy to govern public key infrastructure (PKI) security requirements and certification requirements
- disaster recovery
- contingency planning

Context: The MIHMS system processes Medicaid claims totaling approximately $2.4 billion per year. The operation and management of the system has been contracted-out to a fiscal agent. It is the fiscal agent's responsibility to annually engage a certified public accounting firm to evaluate and test controls that are critical to processing Medicaid transactions.

Cause: The State's relationship with MaineCare's first fiscal agent is relatively new, and the service auditor report for fiscal year 2011 is the first to be due and available. As State personnel become more knowledgeable about the requirements and potential value of the service auditor's report, it will become less likely that critical areas will not be included.

Effect: Lack of proper control could potentially lead to fraud, abuse, disclosure of personal health insurance, unintentional errors, disruption of claims processing, or disruption of payments to vendors.

Recommendation: We recommend that MaineCare personnel work with the fiscal agent to explicitly include these additional areas in the evaluation and testing of controls contained in the service auditor's report.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The State will direct Molina to ensure that the areas mentioned in this finding are explicitly tested in their annual Service Auditor's review and report.

The State and Molina are working closely together to create strong and well-managed work processes. Part of this effort includes tests and reviews to ensure the security of MaineCare systems and information. A Disaster Recovery test is being prepared for March 2012.

Contact: *Stephanie Nadeau, Director, MaineCare Services, 287-2093*

(ML11-1106-15)

State's Program Integrity function needs to obtain the services of professional health personnel

Prior Year Finding: No

State Bureau: Division of Program Integrity

Criteria: Statewide Surveillance and Utilization Control Program (42 CFR §456.3)

Condition: The Division of Program Integrity did not conduct clinical reviews in order to assess the medical necessity of services for all provider types. While the State agency has a medical director, it does not have professional health personnel in the areas of dental, psychological or pharmacological services. According to Federal regulations (42 CFR §456.3), each Medicaid agency must implement a statewide surveillance and utilization control program that safeguards against unnecessary or inappropriate use of Medicaid services and against excess payments.

Context: During fiscal year 2011, the State's Medicaid program reimbursed providers approximately $1.8 billion.

Cause: Lack of funding to hire or contract with the full spectrum of medical professionals necessary to cover all types of providers subject to utilization reviews.

Effect:

- Increased potential for paying claims for medically unnecessary services;
- Not achieving optimal program management relative to the identification of potential overpayments.

Recommendation: We recommend that the Department obtain the services of professional health personnel in order to facilitate the Division of Program Integrity's ability to verify whether all reimbursed services were medically necessary and met professionally recognized standards for health care.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding:*

The Program Integrity Unit had one licensed clinician and one certified coder on staff during the review period. A limited number of clinical reviews were performed; attributable to the on staff clinician's focus is primarily on the restriction program. Therefore availability for clinical reviews was utilized in a limited capacity.

As required under the Patient Protection and Affordable Care Act, the Department is in the process of contracting with a recovery audit contractor to conduct reviews on behalf of Program Integrity. The contract will require that the RAC have qualified clinical professionals available to conduct record reviews for medical necessity. The contract is expected to be executed by April 2012.

Contact: *Greg Nadeau, Manager Program Integrity, 287-9280*

(ML11-1111-03)

Internal controls over supplemental payments need improvement

Prior Year Finding: No

State Bureau: Office for Family Independence

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

Condition: Eligibility Specialists are authorized to issue supplemental (or corrective) payments to clients in the event of an underpayment. Neither the ACES nor the EBT payment systems have delimiters which cap a particular payment amount for these supplemental payments. Supplemental payments are not subject to supervisory review or management oversight.

Context: There were approximately 6200 supplemental payments totaling $1.4 million in fiscal year 2011. We reviewed all clients receiving supplemental payments exceeding $2400.

Cause: The program did not have procedures in place to ensure proper oversight of supplemental payments.

Effect: Potential erroneous or fraudulent payments

Recommendation: We recommend that a cap amount be established in ACES for supplemental payments. We further recommend that the Department require supervisory approval and management monitoring of supplemental payments exceeding established thresholds.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees in part with this finding.*

Eligibility Specialists are extensively trained with the expectation of authorizing benefits to clients without requiring supervisor approval. Supervisors are trained and expected to review eligibility determinations and benefit issuances using the Automated Case Review Tool. The Quality Assurance unit is federally mandated to review and report monthly benefit determinations and issuance amounts. The Electronic Benefit Transfer unit reviews a weekly supplement report of issuances over a set amount and any unjustified issuances are further reviewed by the Payment Accuracy Team.

This finding did not result in any reported erroneous or fraudulent payments due to improper oversight of supplement payments.

In order to increase program integrity, the Department will ascertain and implement an issuance cap on supplement payments by August 31, 2012.

Contact: *Anthony Pelotte, Director, MIS, QA & EBT, 287-3460*

Auditor's Conclusion: Supervisory approval of supplemental payments is a sound control practice that should be implemented. This procedure will minimize the potential for erroneous payments, as well as the opportunity for fraudulent payments to be perpetrated.

Our finding remains as stated.

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Office of the State Fire Marshall and Division of Licensing and Regulatory Services

(ML11-1106-17)

Life safety code surveys not completed in a timely manner

Condition: Two of 11 facilities tested did not receive a life safety code survey in a timely manner. The Fire Marshal's Office is responsible for completing a life safety code survey for nursing and intermediate care facilities for the mentally retarded (ICF/MR) either at the time of the health care surveys or within 12 days.

Context: 115 nursing facilities and 17 ICF/MRs received Medicaid funding in fiscal year 2011.

Cause: Lack of staff

Effect: Potential safety risk to residents residing in nursing or ICF/MR facilities

Recommendation: We recommend the Department ensure life safety code surveys are performed more timely.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

Although the State Plan requires that Life Safety Code surveys are done within twelve calendar days, Federal regulations require thirty days. We will correct the State Plan to agree with Federal regulations.

Regulatory Citation:

2472C - Coordinating Life Safety Code Survey
(Rev. 1, 05-21-04)
In most cases, the SA schedules the LSC survey to coincide with the health survey; however, the timing of the LSC is left to the discretion of the SAs. The SA determines whether the LSC survey is to occur before, after, or simultaneously with the health survey. If the health survey and the LSC survey are conducted at different times, data entry into OSCAR must be deferred until both surveys are completed, and the data of the latest segment of the total survey (the health portion or the LSC portion) is used for OSCAR purposes. In order to complete data submissions in a timely manner, input of the life safety code survey data of long term care facilities should take place not later than 60 days after the conclusion of the long term care survey. Most States require an initial LSC survey before admitting patients prior to becoming operational. Regardless of the timing of the LSC survey, the SA should schedule it so that all certification actions are completed timely.

The Division of Licensing and Regulatory Services will enhance coordination and communications with the State Fire Marshal's Office to ensure compliance with timely Life Safety Code (LSC) surveys. The following process clarifications and changes will be coordinated with the appropriate staff at the SFMO, and all involved Office Associates and program

supervisors will be informed and trained on the following process to include the tracking activities indicated below. Implementation of the following protocol shall not exceed the date of June 1, 2012.

The State Fire Marshal's Office will be informed of the planned survey workload on a quarterly basis. Any necessary interim adjustments will be communicated by the program supervisor or designee to the SFMO by electronic mail. Urgent changes to the proposed schedule will be communicated via a direct phone call to the SFMO designee.

Standard Guidelines and Tracking

Life Safety Code surveys must be performed within 30 days from the Health Survey exit so that the report processing and data entry notifications to CMS can meet all Federal guidelines.

Paperwork/data entry in Aspen Central Office (ACO), including (1) Statement of Deficiency (SOD); (2) an acceptable Plan of Correction (POC); and (3) the 2586 LSC forms, shall be completed and forwarded to DLRS by the 60th day following the Health Survey Exit.

The SFMO must notify DLRS of any Informal Dispute Resolution requests.

DLRS will institute an internal tracking protocol to ensure compliance with the above plan, which protocol shall include the following:

1. *Fourteen (14) days from exit date of the Health Survey, the DLRS Office Associate or designee will check ACO to see if a LSC survey has been conducted and entered into ACO.*
    a. *If yes, the process will be put into a pending status awaiting the completion of paperwork and data entry. By day 30 of the health survey exit, if not already received, the DLRS Office Associate will contact the SFMO to coordinate the receipt of this information.*
    b. *If no, SFMO will be contacted immediately to find out if the survey has been completed but not yet entered into ACO, or to ascertain when the LSC survey is scheduled.*

2. *All additional data entry of the SFMO information and the supporting paperwork (due to revisits and SOD/POC or waiver activity) needs to be completed by the SFMO and data entered into ACO and forwarded to DLRS by day 90 from the Health Survey Exit unless there are pending enforcement actions.*
    a. *If information not in ACO or received by DLRS, the Office Associate will contact SFMO for a status report.*

Contact: *Kenneth Albert, RN, Esq., Director, Division of Licensing & Regulatory Services, 287-9330*

Workers' Compensation Board

(ML11-0203-01)

Accounts receivable process needs improvement

Prior Year Finding: 10-203-01

Condition: The Worker's Compensation Board (WCB) did not actively pursue collection of older accounts receivable during fiscal year 2011. During fiscal year 2012, however, a process was implemented to actively collect these older amounts due.

Context: As of June 30, 2011, the WCB accounts receivable balance was approximately $1.4 million. The balance is comprised primarily of penalties assessed against employers for noncompliance with worker's compensation insurance requirements.

Cause: Inadequate procedures for collection of older accounts receivable

Effect: Amounts due to the WCB may not be collected.

Recommendation: We recommend that the Board continue its efforts to actively manage collections of older accounts receivable.

Management's Response/Corrective Action Plan: *The Workers' Compensation Board (WCB) agrees with the finding.*

The WCB notes that $400,000 of the $1.4 million outstanding as of June 30, 2011 had been submitted for charge off in April 2011; these are debts primarily of businesses no longer operating or for which there was no legal liability against the business owners leaving nothing to collect against. These debts had all been submitted to Maine Revenue Services for setoff, some multiple years, with little success. WCB was notified in August 2011 that all the debts submitted were being rejected pending the publication of guidelines for charge offs from the Controller's Office; the guidelines were received on February 9, 2012 and the WCB expects to resubmitting these debts, with others that meet the guidelines, to the Controller's Office for charge off in fiscal year 2012.

During fiscal year 2011, the WCB implemented a corrective action plan to address collection of older accounts receivable. The WCB expanded computer research to identify information needed for collection. Standard operating procedures ("SOP"s) were put in place to receive AdvantageME report AR03D monthly and for supervisory staff to use the report to manage collection efforts. New SOP's also include: (1) a sequential system of invoices moving debts from "past due" to "enforcement"; (2) adding a "demand letter" notifying debtors accounts will be sent to collection within 14 days; (3) capping installment payments at 90 days (down from 1 year) unless there is written approval from a supervisor; (4) establishing automatic triggers to initiate collection; (5) centralization & oversight of collection by administrative support personnel; (6) reducing the waiting period before initiation of license/charter suspension &/or revocation (granted by statutory authority) as an early collection response rather than a "last

chance" response; and (7) prompt and regular referral of eligible debts (see below) to the Attorney General's ("AG's") office for collection.

The WCB has worked with various State agencies to collect past due amounts and will continue to seek help from these agencies. The WCB has reached an agreement with the AG's office to relax the criteria for accepting cases for collection, eliminating the requirement that debts be no more than 3 years old, and reducing the amount eligible for collection to $500 or less in specific instances. The WCB expects to pursue discussions to contract with private attorneys and aggressively pursue collection of its older accounts receivable debts.

The WCB also continues to submit outstanding accounts to Maine Revenue Services annually for setoff. And the WCB also expects to complete upgrades to its database case management system to facilitate systematic invoicing and tracking of accounts receivable in fiscal year 2012.

Contact: *Paul H. Sighinolfi, Esq., Executive Director & Chair, Maine Workers' Compensation Board, 287-7086.*

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